

To: Reviewer and Approvers of Vanderbilt University Medical Center Operating Budgets; Hospital and Clinic Divisions, RSM Division, VHS and Affiliates Division, HPS Division and Medical Center Administration Division

From: Cecelia B Moore, CFO And Treasurer

Date: January 26, 2024

Re: **Vanderbilt University Medical Center FY25 Operating Budget: Clinical Enterprise and Medical Center Administration Divisions**

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The FY25 VUMC budgeting process is now underway. This letter is intended to communicate the general guidelines and provide direction in preparation of the operating budgets for the upcoming Fiscal Year.

We thank you for your continued hard work and commitment to providing high-quality healthcare. FY 2024 financial performance reflects significant improvement due to the effort made to closely manage our expenses, particularly reducing our dependence on expensive travel staffing and other contractors. Despite this improvement, we remain focused on hiring and retaining the mostly highly qualified people, particularly in direct patient care roles and we will continue to invest in merit and market increases as outlined later in this memorandum.

Even with our improved performance, the factors that led to financial strain, wage and supply inflation and staff shortages in key areas persist. It is vital that we continue to closely evaluate the need to hire and consider how we can instead leverage new technologies or reorganize our work. Our senior leaders will continue to carefully review position requests as we work through our FY 25 budget. We will again have organized projects designed to generate savings equivalent to 2% of our expenditures, a lower goal than in previous years.

Continued improved financial performance will be a priority as we move forward. It is essential to maintain and update our facilities, replace outdated equipment, and sustain a safe and productive environment. While challenges remain, we have every confidence that we will continue to be successful.

As you develop your FY25 Budgets, please think critically about how you will participate in strategically allocating resources while still focusing on our tripartite mission of providing exceptional care and service to our patients, advancing innovation and discovery, and training the next generation of leaders in science and health care. Thank you for all that you do for Vanderbilt University Medical Center.

### **Improvement Initiatives and Discretionary Spending**

As discussed above, the financial challenges we faced are not behind us. Like FY24, each Division will engage in identifying a portfolio of projects designed to both grow revenue and reduce expenses across VUMC. Projects from FY24 should be reviewed to determine if we can include the project's full run rate potential in FY25 (e.g. Roles and Responsibilities). Additionally, newer startup projects that have increased volumes substantially over the last several years should be reviewed for economies of scale adjustment to their cost center labor standards (e.g. Hendersonville, Murfreesboro).

Attached is a summary of key elements each division should consider when constructing your budgets. **"Table X - Key Considerations for FY25 Budget"**

Additionally, there is a need to maintain discretionary spending at FY24 budget levels or less.

## Labor Guidelines

### **Benchmarking**

As in FY24, we need to continue to challenge our areas that are benchmarking above the 50% tile in hours per unit, our primary measure of productivity. Action plans for these departments should be incorporated in the FY25 budget. Hours per unit reductions can be submitted to the Budget Administration team during the process and the system will reflect these updates weekly.

### **Vacancy Factor**

Each Division should budget the following vacancy factor highlighted in Table 1. If a division believes there is a reason to change the amount, it can be adjusted by +/- 1% point. Vacancy factors should continue to be in central cost centers as in FY24.

**Table 1**

<b>FY24 FYTD Nov Actual Reporting</b>	<b>VUH</b>	<b>AOD</b>	<b>AOR</b>	<b>RSM</b>	<b>MCJCHV</b>	<b>VPH</b>	<b>VWCH</b>	<b>VBCH</b>	<b>VTHH</b>	<b>MCA</b>	<b>Total</b>
Actual Paid FTEs	6,704	2,788	803	451	3,103	322.8	842.5	263.7	437.6	3,736	19,452
Total Paid Prod %	101.6%	100.1%	99.3%	103.3%	101.6%	101.9%	107.8%	89.2%	107.7%	103.3%	101.9%
Total Paid Variance in FTEs to Target	107.2	2.2	(6.0)	15.0	50.8	6.2	40.0	6.6	7.6	123.6	353
Add: Vacancy already netting budget FTEs down	425	119	43	15	120	19	24	5	12	376	1,157
<b>Actual Vacancy in FTEs</b>	<b>532</b>	<b>121</b>	<b>37</b>	<b>30</b>	<b>171</b>	<b>25</b>	<b>64</b>	<b>12</b>	<b>20</b>	<b>500</b>	<b>1,510</b>
<b>Actual Vacancy factor</b>	<b>7.3%</b>	<b>4.2%</b>	<b>4.4%</b>	<b>6.1%</b>	<b>5.2%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>4.2%</b>	<b>4.3%</b>	<b>11.8%</b>	<b>7.2%</b>

### **Productive and Non-Productive time**

The FY25 budget non-productive guideline is derived from actual Kronos non-productive history; with no changes to the PTO plans anticipated, this should align productivity reporting with the FY25 Budget. The current Adaptive build provides non-productive % inputs for MCJCHV and all other Operating Entities. These percentages will be applied to all cost centers and job categories. A benefit of the new budget tool is that all users will attend training, where it will be reinforced that the Budget expense and FTEs are based on TOTAL PAID FTEs including both productive and non-productive time.

**Table 2**

<b>Non-Productive rates</b>		
<b>Per Executive Labor Dashboard</b>		
	<b>MCJCHV</b>	<b>All Other</b>
FY23 Non-productive %	14.60%	11.69%
FY24 YTD Nov Non-productive %	13.41%	10.76%
<b>FY25 Guideline Recommendation</b>	<b>14.50%</b>	<b>11.70%</b>

## Overtime

Overtime will be budgeted at the position level for fixed, non-salary positions and at the job profile level for variable positions. The sum of all overtime should be near the following guidelines by division.

**Table 3**

Overtime FTEs % of Total Paid FTE									
Per Executive Labor Dashboard									
	VUH	AOD/AOR	RSM	MCJCHV	VPH	VWCH	VTHH	VBCH	MCA
FY23 OT %	4.02%	1.60%	1.96%	3.12%	4.37%	4.30%	3.70%	2.04%	1.55%
FY24 YTD Nov OT%	4.68%	1.35%	1.98%	3.64%	4.31%	3.40%	3.10%	1.68%	1.53%
<b>FY25 Guideline per Division Finance Leadership</b>									
	<b>4.25%</b>	<b>1.50%</b>	<b>2.00%</b>	<b>3.10%</b>	<b>4.40%</b>	<b>4.00%</b>	<b>3.70%</b>	<b>2.00%</b>	<b>1.50%</b>

## Premium Pay

Premium Pay is typically budgeted in a single cost center for a division. The guidelines are in the table below.

**Table 4**

Premium Pay SC401									
	VUH	Adult Ambulatory	RSM	MCJCHV	VPH	VWCH	VTHH	VBCH	
FY22 Actual	14,092,917	1,297,348	9,342	5,798,929	1,131,418	2,554,297	1,636,803	730,600	
FY22 % of Total Staff Wages	2.24%	0.55%	0.03%	2.40%	5.07%	3.83%	4.71%	3.66%	
FY23 Actual	16,733,736	1,131,323	13,566	7,212,669	934,549	3,886,602	2,578,257	1,003,903	
FY23 % of Total Staff Wages	2.43%	0.42%	0.04%	2.57%	3.59%	5.03%	6.90%	4.71%	
FY24 YTD November	8,820,942	432,384	4,041	3,566,865	209,279	1,231,935	889,155	441,554	
FY24 % of Total Staff Wages	3.15%	0.38%	0.02%	2.99%	1.92%	4.18%	5.82%	5.01%	
FY24 YTD November Annualized	21,170,261	1,037,721	9,698	8,560,476	502,270	2,956,644	2,133,972	1,059,730	
FY24 Budget	11,851,271	237,324	-	2,657,348	395,646	2,483,867	1,538,735	-	
<b>Guideline per Division Finance Leadership</b>									
	<b>\$ 21,000,000</b>	<b>\$ 1,000,000</b>	<b>\$ 10,000</b>	<b>\$ 8,500,000</b>	<b>\$ 500,000</b>	<b>\$ 2,500,000</b>	<b>\$ 2,000,000</b>	<b>\$ 1,000,000</b>	

## Special Pay

Special pay guidelines are set based on joint agreement between Human Resource and Operational Leadership and include sign-on bonuses. These numbers can be lowered in the budget process if it is determined that turnover will be lower than FY24 and/or the sign-on bonus amount per person can be lowered in FY25.

**Table 5**

Special Pay SC414									
	VUH	Adult Ambulatory	RSM	MCJCHV	VPH	VWCH	VTHH	VBCH	
FY22 Actual	37,440,406	6,511,292	714,097	10,451,740	767,886	2,525,257	2,096,685	1,135,438	
FY22 % of Total Staff Wages	5.94%	2.77%	2.26%	4.33%	3.44%	3.79%	6.04%	5.69%	
FY23 Actual	41,582,571	6,050,330	560,544	9,192,765	883,811	3,946,511	1,823,326	1,060,331	
FY23 % of Total Staff Wages	6.03%	2.25%	1.46%	3.27%	3.40%	5.11%	4.88%	4.97%	
FY24 YTD November	9,205,478	3,015,740	303,373	3,135,243	262,767	1,130,017	241,047	315,615	
FY24 % of Total Staff Wages	3.29%	2.63%	1.71%	2.63%	2.41%	3.83%	1.58%	3.58%	
FY24 YTD November Annualized	22,093,147	7,237,777	728,095	7,524,583	630,641	2,712,041	578,513	757,476	
FY24 Budget	15,262,882	1,075,507	-	6,857,804	542,000	1,546,748	613,000	453,000	
<b>Guideline per Division Finance Leadership</b>									
	<b>\$ 25,000,000</b>	<b>\$ 6,500,000</b>	<b>\$ 750,000</b>	<b>\$ 8,000,000</b>	<b>\$ 600,000</b>	<b>\$ 2,500,000</b>	<b>\$ 750,000</b>	<b>\$ 750,000</b>	

**Expansion Projects**

As we continue to invest in the future of the Medical Center, we have the following Board approved major projects that have significance to the FY25 Budget. The current (as of this date) expected openings are in the table below for VUH and the MCJCHV locations.

**Table 6**  
**January 2024**

<b>Recast January 2024</b>					
	<b>Floor</b>	<b>Beds</b>	<b>Date</b>	<b>% of FY Open</b>	<b>Avg Beds Open</b>
<b>FY2025</b>					
		<b>0</b>		<b>0%</b>	<b>0</b>
<b>FY2026</b>	7	30	Oct-25	75%	23
5 Floor:	8	30	Dec-25	58%	18
	9	30	Feb-26	42%	13
	10	30	Apr-26	25%	8
	11	30	Jun-26	8%	3
		<b>150</b>		<b>42%</b>	<b>63</b>
<b>FY2027</b>	7-11	150		100%	150
1 Floor	12	30	Aug-26	92%	28
		<b>180</b>		<b>99%</b>	<b>178</b>

Open cadence same as June 2023 - assume open first day of the month and the next floor 60 days later

**MCE 9 ORs June 2025**

Net 9 new. Adding 11 new but taking down existing VORs 3 & 4 to build a Cath Lab for the fifth floor cardiology cases.

<b>MCJCHV Building</b>					
	<b>Floor</b>	<b>Beds</b>	<b>Date</b>	<b>% of FY Open</b>	<b>Avg Beds Open</b>
<b>FY2025</b>					
Adult	14	38	Sep-24	83%	32
Peds	12	38	Mar-25	33%	13
		<b>76</b>		<b>58%</b>	<b>44</b>

All new expenses to support this growth should be aligned with the clinical department recruitment plans and the original pro forma that was approved with the project. Hospital start-up expenses for new staff orientation, instruments, non-capital items, etc. should be in line with the current timing of the project and the original pro forma. **Divisional Finance officers should review and approve all items related to major new projects.**

## **Budget System and Resources**

New this year, VUMC will be using Workday Adaptive Planning (Adaptive Planning) for our Budget development process. This application will integrate with MyWorkday and provide a single system for all areas of the Medical Center, improving the efficiency of the budget process. For the Clinical Enterprise Divisions, volumes, historical actuals and high-level assumptions are the baseline for budgeted revenue and expense for FY25, thus moving us toward a process aligned with our Key Performance Indicators. Additionally, Adaptive Planning allows for monthly budget development adding a new level of accuracy to better support variance analysis.

## **Adaptive Training**

Access to Adaptive is available as an Application within Workday. To prepare for the use of this new tool, there will be numerous live, remote training sessions for users to attend between January 29<sup>th</sup> and February 9<sup>th</sup>. Sessions will be between two and three hours in duration and will be customized for the needs of MCA or Hospital and Clinic users. Registration can be accessed through the Learning Exchange. In addition, training guides, calendars, reference materials, recorded training sessions and other helpful resources are available at <https://www.vumc.org/myworkday/budget>. Additionally, there will be drop-in sessions with live support available multiple times per week between February 12<sup>th</sup> and March 1<sup>st</sup> (link available at website above).

## **Budget Calendar**

Adaptive Planning opens on February 1<sup>st</sup> 2024. Clinical Enterprise Divisions have until March 29<sup>th</sup>, 2024 to complete their work while the Medical Center Administration deadline is March 1<sup>st</sup>. Below are other high-level dates of interest, with the detail calendars available at the link listed above

1/29/24 – 2/9/24 2/12/24 – 3/1/24	Adaptive Training Sessions Drop-in Sessions 3X per week
2/1/24 – 2/16/24	Volumes completed in Adaptive; All Divisions begin budgeting non-variable revenue and expenses
2/1/24 – 3/1/24 2/1/24 – 3/29/24 2/1/24 – 2/29/24 2/1/24 – 3/7/24	<b>FY25 Budgets completed in Adaptive Planning:</b> MCA Non-VMG clinical Enterprise AE/VMG Non-clinical Departments AE/VMG Clinical Departments
3/18/24 - 3/29/24	Divisional Leadership reviews
3/26/24 – 4/23/24	Budgets reviewed by Executive Leadership
6/4/24- 6/5/24	FY25 Budget approved by Board of Directors

## Process Overview

Adaptive Planning will be used to review and finalize the volume drivers for revenues and expenses. These volumes include discharges, patient days, ambulatory and emergency visits, key procedures, and surgeries. This stage of the process will be the focus between February 1<sup>st</sup> and 16<sup>th</sup>. During this time MCA can begin to review and finalize their budgets, and non-variable expenses can be reviewed. After the volumes are final all remaining aspects of departmental budgets can be reviewed, edited and finalized. In total, Adaptive Planning will be available for approximately 8 weeks prior to the final review and approval by Executive leadership which begins on March 26<sup>th</sup>.

## Personnel, Salary, Wage mechanics and Fringe Benefits Rates

Adaptive Planning will be pre-populated with position and salary data as of late January 2024 to reflect the most current data. Fixed positions will be budgeted at the position level and are expected to remain at or below the FY24 Budget unless incremental FTEs are approved by Divisional Executive VP/President and Finance VP. Variable positions will be budgeted at the job profile level. For variable job profiles, staff FTEs will be initially determined using the FY25 volume and the current Labor Standard Hours per Unit (HPU) in Kronos Analytics. Divisions are responsible for finding improvements in the Labor Standard Hours per Unit through Benchmarking, economies of scale or other identified opportunities. All changes to Labor Standards must be submitted to the Budget Administration team to be adjusted in the budget tool. **Any Hours per Unit increases should be minimal and require approval from Divisional Executive VP/President and Finance VP.**

This year, a 3.5% merit increase effective 1/1/25 will be budgeted at the position level for fixed positions, and at the job profile level for variable positions. Market increases will be primarily budgeted at a central level for each operating division.

The FY 2025 fringe benefit rates will be loaded into the Adaptive system and are listed below:

### **FY25 Fringe Benefit Rates**

- Faculty 1/Sr. Staff 24.10%
- Medical Center Staff 28.80%
- Faculty 2 13.50%
- Medical Center Part-time/Temp 10.70%
- VIP Sr. Staff 12.60%
- VIP Staff 26.00%
- VIP Part-time/Temp 9.50%

## Supplies and Purchased Services

Below are the inflation indicators used to develop the FY25 budget.

<b>Medical Supplies/Equipment</b>			
Cardiology Overall	2.4%	Orthopedic Overall	2.1%
IV Solutions	3.5%	Pharmaceuticals	3.8%
Lab consumables	1.7%	Medical Equipment	2.0%
Medical Gases	4.0%	Surgical Supplies	2.2%
Medical Supplies	2.7%	Medical overall	2.7%

<b>Non-Medical Supplies/Equipment/Services</b>			
Food Products	3.3%	Paper Products	4.0%
Purchased Services	3.5%	Office Supplies	3.0%
Office Furniture	4.0%	Overall Inflation	2.9%

### **Medical Center Administration**

The MCA division houses many overhead departments of VUMC, including both large and small support programs used by operating divisions. Most MCA cost is allocated to the revenue-generating Clinical and Academic Divisions, therefore FY25 budget targets have been developed for each MCA area in line with the 5-Year Strategic Financial Plan. These targets will be communicated to each area before the process starts. All budget questions regarding these overhead departments should be directed to Diane Gilbert.

### **Budget Reports**

There are various budget reports available through Adaptive Planning that will assist with the development and review of your budgets. These reports will be reviewed during training. Reports are accessible from the Adaptive Planning Home screen, under the menu options. Please refer to the Training and Reporting Guides at <https://www.vumc.org/myworkday/budget> for detailed instructions on running budget reports.

### **Budget Review Sessions**

Budget Review meetings will be held within each VUMC Division across several weeks in March. Each Division will establish their own review structure, cadence, and attendees.

Executive reviews will also occur during scheduled Clinical Enterprise Executive Committee (CEEC) meetings in late March through April. Representatives from each Division will participate in these sessions according to a review schedule. The schedule and attendees will be communicated in February 2024.

### **Contact Information update with website link**

Please work with your Office of Finance representative during the budget process. They can provide guidance regarding strategic and operational decisions you are considering. If you have questions regarding the Adaptive tool, please email [AdaptiveBudgetCEMCA@vumc.org](mailto:AdaptiveBudgetCEMCA@vumc.org)

In closing, we understand and appreciate the investment required to produce a strategically focused and financially sound operational plan for FY25. As we all work toward the continued growth and success of Vanderbilt University Medical Center, please be cognizant of these budget guidelines and parameters, adhere to the timelines and submit a budget that fairly represents growth and productivity in sync with targeted results. Thank you for your collaboration and expertise as we partner to serve this remarkable institution.